GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:7209
ANSWERED ON:13.05.2005
IRREGULARITIES IN CO OPERATIVE BANKS
Gadhavi Shri Pushpdan Shambhudan

Will the Minister of FINANCE be pleased to state:

(a) whether Government is aware of various irregularities carried out by co-operative banks specially in Gujarat State;

(b) if so, whether any inquiry has been constituted by the Government on such irregularities so far;

(c) if so, the outcome of the inquiry;

(d) if not, the reasons therefor; and

(e) the steps taken by the Government or proposed to be taken to curb such irregularities?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI. S.S.PALANIMANICKAM)

(a) and (b) Yes, Sir. A Joint Parliamentary Committee (JPC) was set up to look into, inter-alia, the Stock Market Scam and the role of Madhavpura Mercantile Cooperative Bank (MMCB) in financing a group of stock broking firms. Besides, the transactions of Urban Cooperative Banks (UCBs) in Government Securities with Home Trade Ltd. and irregularities committed by UCBs in Surat have been looked into by RBI.

(c) The JPC had recommended ban on grant of loans and advances to Directors and relatives, mandatory concurrent audit, enhancement of penalties under Banking Regulation Act, etc. The action taken report on the recommendations made by JPC has been placed before the Parliament. As regards transaction in Government Securities by selected banks in Gujarat, some irregularities were observed by RBI. Consequently, a requisition was issued to Registrar of Cooperative Societies, Gujarat under Section 115A of Gujarat State Cooperative Act for Supersession of the Board of Directors of these banks.

(d) In view of (c) above, does not arise.

(e) Various bank specific and policy specific measures have been taken such as :-

(i) Establishment of Fraud Monitoring Cell to monitor the cases of frauds of Rs. 25 lakhs and more;

(ii) UCBs have been advised to constitute an Audit Committee of the Board of Directors to review the internal audit/statutory audit reports and RBI`s inspection report;

(iii)Introduction of concurrent audit covering their key functional area;

(iv) Prohibition from lending to Stock Brokers;

(v) Audit of investment portfolio by the concerned auditors of the bank;

(vi) Strict adherence to Know Your Customer (KYC) norms.